

Message Text

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ORIGIN STR-08

INFO OCT-01 AF-10 ARA-16 ISO-00 FEA-02 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 EB-11 FRB-03 H-03 INR-11

INT-08 L-03 LAB-06 NSAE-00 NSC-07 PA-04 RSC-01 AID-20

CIEP-03 SS-20 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03

OMB-01 SWF-02 SAM-01 EUR-25 /209 R

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R 092245Z AUG 74

FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS

INFO AMEMBASSY ABIDJAN

AMEMBASSY ACCRA

AMEMBASSY LAGOS

AMEMBASSY ADDIS ABABA

AMEMBASSY NAIROBI

AMEMBASSY KINSHASA

AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY PORT OF SPAIN

USMISSION OECD PARIS

AMEMBASSY KINGSTON

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AMEMBASSY BRUSSELS

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AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY PARIS

AMEMBASSY BONN
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AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN

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C O R R E C T E D C O P Y (ADDED INFO ADDEES AND CLEARANCES)

E.O. 11652: N/A

TAGS: ETRD, EAGR, EC

SUBJECT: PROPOSED EC-ACP ARRANGEMENTS ON STABILIZATION OF
EXPORT RECEIPTS

1. USG APPRECIATES DESCRIPTION OF PROPOSED EC-ACP EXPORT STABILIZATION SCHEMES PROVIDED BY EC COMMISSIONER OF DEVELOPMENT CHEYSSON DURING HIS VISIT TO DEPARTMENT JULY 29. WE UNDERSTAND THAT MANY DETAILS INCLUDING PRODUCT COVERAGE REMAIN TO BE WORKED OUT. HOWEVER, IN VIEW OF THE IMPLICATIONS OF THIS SCHEME FOR THE INTERNATIONAL TRADING SYSTEM IN GENERAL AND US TRADE SPECIFICALLY, WE FEEL THAT A MORE DETAILED EXPLANATION OF THE SCHEME WOULD BE USEFUL. WE UNDERSTAND THAT DUE TO VACATIONS IT MAY BE DIFFICULT TO DISCUSS THIS QUESTION WITH INDIVIDUALS RESPONSIBLE FOR POLICY FORMULATION AND THEREFORE DO NOT EXPECT COMPLETE REPLY BEFORE SEPTEMBER, BUT WOULD APPRECIATE INTERIM REPLIES AS RAPIDLY AS INFORMATION DEVELOPS. TRA AND EXPORT LEGISLATION ARE STILL IN CONGRESS AND THE NEXT FEW WEEKS WILL BE AN EXTREMELY DELICATE PERIOD FOR DEALING WITH SUPPLY ACCESS AND OTHER QUESTIONS. INFORMATION ON EC SCHEME NEEDED TO DEVELOP USG POSITION AND BETTER ENABLE ADMINISTRATION TO HANDLE CONGRESSIONAL CONCERNS AND AVOID POSSIBLE UNDESIRABLE AMENDMENTS. RESUMPTION TRA MARKUP EXPECTED TAKE PLACE WEEK OF AUGUST 19.

2. MISSION IN MAKING APPROACH TO COMMISSION SHOULD POINT OUT THAT US LOOKS FORWARD TO OPPORTUNITY TO CONSULT WITH COMMISSION AS DETAILS OF SCHEME BEING WORKED OUT AND HOPES
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THAT OUR POSSIBLE CONCERNS CAN BE DEALT WITH BEFORE SCHEME IS FINALLY NEGOTIATED. IN THIS REGARD, THE US WOULD APPRECIATE MISSION VERIFYING EC UNDERTAKING TO CONSULT FURTHER ON THE DEVELOPMENT AND IMPLEMENTATION OF THIS INITIATIVE AND ANY PROPOSAL FOR CARRYING THIS OUT.

3. FOLLOWING IS OUR UNDERSTANDING OF CHEYSSON'S EXPLANATION OF FIVE-YEAR EXPORT RECEIPT STABILIZATION SCHEME WITH CLARIFICATION NEEDED:

A. NO FINAL AGREEMENT ON LIST OF PRODUCTS COVERED BUT MINERALS DEFINITELY EXCLUDED. (IS PRODUCT COVERAGE LIKELY

TO BE EXPANDED AT LATER DATE? ARE ALL PARTICIPATING COUNTRIES COVERED BY SCHEME FOR ALL COMMODITIES ON LIST OR TO BE ELIGIBLE, MUST THE PRODUCT CONSTITUTE LARGE SHARE OF COUNTRY EXPORTS?)

B. PARTICIPATING ACP STATES WILL BE AUTOMATICALLY ENTITLED TO ASK FOR A COMPENSATING FINANCIAL TRANSFER FROM THE EC FUND SHOULD THEIR EXPORT EARNINGS FOR ONE YEAR DROP BELOW THE AVERAGE EARNINGS FOR THE THREE TO FIVE-YEAR REFERENCE PERIOD. (DOES DROP IN EXPORT EARNINGS REFER TO SINGLE COMMODITY OR NET EARNINGS FROM ALL COMMODITIES COVERED? ARE ONLY EXPORTS TO EC COUNTRIES CONSIDERED OR EXPORTS TO ALL DESTINATIONS?)

C. THE EC WILL TAKE INTO ACCOUNT THE LEVEL OF THE COUNTRY'S GLOBAL EXPORT EARNINGS IN CONSIDERING THE COUNTRY'S REQUEST FOR A FINANCIAL TRANSFER. (HAS THE COMMUNITY DEVELOPED CRITERIA FOR DEFINING GLOBAL EXPORT EARNINGS, I.E., ALL DESTINATIONS, ALL EXPORTS, ONLY PRODUCTS COVERED BY THE SCHEME OR ONLY PARTICULAR PRODUCT EXPERIENCING SHORTFALL?) THE EC WILL ALSO CONTINUE TO EXAMINE WHETHER THE EXPORT EARNINGS DROP RESULTS FROM RESTRICTIVE EXPORT OR PRODUCTION POLICIES ON THE PART OF THE LDC INVOLVED OR IMPORT RESTRICTIONS IMPOSED BY THE EC.

D. SPECIAL MEASURES WILL HAVE TO BE TAKEN IN FAVOR OF LAND-LOCKED COUNTRIES, ISLANDS, AND THE LEAST DEVELOPED COUNTRIES (WHAT MEASURES ARE FORESEEN? WILL THEY BE LIMITED TO SPECIAL PROVISION ON REPAYMENT?)
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E. WHEN AN LDC'S EXPORT EARNINGS FROM THE COMMODITY CONCERNED EXCEED THE REFERENCE LEVEL, THE LDC WILL REIMBURSE THE FUND. WHAT WOULD BE THE EXTENT OF THE REIMBURSEMENT OBLIGATION?

F. THERE ARE NO SUPPLY COMMITMENT PROVISIONS IN THE SCHEME, NOR CONDITIONS AS TO THE USE OF THE FUNDS TRANSFERRED.

4. THE US WOULD APPRECIATE CONFIRMATION AND CLARIFICATION AS APPROPRIATE OF FEATURES OUTLINED ABOVE AS WELL AS EXPLANATION OF FOLLOWING IN EC SCHEME:

A. DOES EC ENVISAGE THAT THIS SCHEME WILL SIGNIFICANTLY DEPART FROM COMMISSION PROPOSAL OF JUNE 1973(SEC(73)2043)? SPECIFICALLY, CHEYSSON TOLD US THAT NO RECIPROCAL COMMITMENTS WOULD BE ASKED OF ACP'S. ALSO, HE SAID THAT THERE ARE NO SUPPLY COMMITMENT PROVISIONS IN THE SCHEME OTHER THAN THAT THE ACP COUNTRY WILL NOT RESTRICT EXPORTS TO THE EC. PARAGRAPH 55 IN THE 1973 REPORT LAY OUT THE CONTRACTUAL NATURE OF THE SYSTEM INCLUDING A SPECIFIC OBLIGATION

THAT IN THE EVENT OF A FALL IN THE LEVEL OF THEIR PRODUCTION AVAILABLE FOR EXPORT, ACP COUNTRIES WOULD NOT DECREASE THEIR EXPORTS TO THE COMMUNITY BY A PROPORTION GREATER THAN THE FALL IN THEIR TOTAL EXPORTS. (ARE ANY OF THESE OBLIGATIONS STILL IN THE EC PROPOSAL?)

UNDER INITIAL PROPOSAL, FOR PURPOSES OF THE SCHEME, ACP EXPORT RECEIPTS IN ANY ONE YEAR WOULD BE CALCULATED BY MULTIPLYING THE QUANTITIES ACTUALLY EXPORTED TO THE COMMUNITY BY THE WORLD PRICE (PARAGRAPH 42). IS THIS FORMULA (WORLD PRICE TIMES QUANTITIES EXPORTED TO EC) RATHER THAN ACTUAL EXPORT EARNINGS STILL TO BE USED? IS PARAGRAPH 42 OBSERVATION STILL CURRENT THAT THE CEILING FOR THE REFERENCE QUANTITIES ENTITLED TO DUTY-FREE ENTRY WOULD BE ESTABLISHED AT THE LEVEL OF AVERAGE COMMUNITY IMPORTS DURING THE REFERENCE PERIOD AND IF SO, WHAT DOES IT MEAN?

B. WILL PRODUCTS COVERED IN EC SCHEME WHICH ARE ALSO COVERED BY INTERNATIONAL COMMODITY AGREEMENTS BE TREATED LIMITED OFFICIAL USE
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DIFFERENTLY? IF SO, HOW?

C. WILL EXPORTS TO EC OF THE COMMODITIES IN THEIR SEMI-PROCESSED FORMS BE COVERED BY SCHEME? WHAT IS EC ASSESSMENT OF EFFECT OF STABILIZATION SCHEME ON DEVELOPMENT OF PROCESSING INDUSTRIES IN ACP COUNTRIES?

D. DOES EC BELIEVE THAT SCHEME WILL ENCOURAGE STATE MARKETING AS OPPOSED TO PRIVATE TRADE? (WE ASSUME TRANSFERS ARE TO BE MADE TO PRODUCER GOVERNMENTS, NOT TO PRIVATE TRADERS.) IN CASE PRIVATE TRADE IS INVOLVED, HOW WILL COMPENSATION SCHEME WORK?

E. DOES EC PLAN TO DO ANYTHING OF THIS NATURE FOR NON-ACP DEVELOPING COUNTRIES PRODUCING SIMILAR COMMODITIES, SUCH AS LATIN AMERICAN AND NON-PARTICIPATING CARIBBEAN STATES? ARE OTHER TYPES OF POLICY INITIATIVES CONSIDERED FOR THESE COUNTRIES?

F. WHAT IS EC ASSESSMENT OF POSSIBILITY THAT ACP COUNTRIES MAY DIVERT EXPORTS NORMALLY DESTINED FOR OTHER MARKETS TO EC TO MAXIMIZE RETURNS FROM SCHEME, E.G., BY BUILDING UP REFERTCE BASE.

G. WILL THERE BE AN INSTITUTIONAL BODY UNDER THE SCHEME WHICH WILL SEEK TO MANAGE THE PRODUCTION AND TRADE PATTERNS WITH RESPECT TO EACH COMMODITY? MOREOVER, WILL THE SCHEME DETER OR GIVE IMPETUS AND FINANCIAL SUPPORT TO FORMATION OF SUPPLIER CARTELS?

H. WHAT IS THE EC ASSESSMENT OF SCHEME'S IMPACT ON PRODUCTION AND STOCKBUILDING OF THESE COMMODITIES?

I. DOES THE EC SCHEME PROVIDE SAFEGUARDS TO PREVENT ACP COUNTRIES FROM MANIPULATING MARKETS TO MAXIMIZE RETURNS IN WAYS DETRIMENTAL TO THE EC-9? DOES THE SCHEME INCLUDE SAFEGUARDS TO PREVENT ACP COUNTRIES FROM MAXIMIZING RETURNS BY TAKING ACTIONS WHICH CAN AFFECT OTHER COMPETING EXPORTERS AND NON-PARTICIPATING IMPORTING COUNTRIES (E.G., THE US)?

J. IN SURPLUS MARKET SITUATIONS WITH DROPPING COMMODITY LIMITED OFFICIAL USE
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PRICES, ACP GOVERNMENTS COULD USE FINANCIAL RESOURCES PROVIDED UNDER STABILIZATION SCHEME TO SUBSIDIZE THEIR EXPORTS, ALLOWING THEIR PRODUCERS TO UNDERCUT OTHER SELLERS AND DAMPENING THEIR INCENTIVE TO CUT BACK ON PRODUCTION. SUCH ACTION WOULD HEIGHTEN BOOM-BUST PRICE SWINGS FOR NON-ACP PRODUCERS AND MAKE THEIR PRODUCTION ADJUSTMENTS MORE DIFFICULT. DOES THE EC SCHEME PROVIDE SAFEGUARDS AGAINST SUCH A SITUATION?

K. HAS THE EC CONSIDERED POSSIBILITY THAT SOME ACP GOVERNMENTS MAY FIND EXPORT EARNINGS REALIZED BY THE PRIVATE SECTOR LESS DESIROUS THAN DIRECT COMPENSATORY TRANSFER OF FUNDS OVER WHICH GOVERNMENT HAS COMPLETE CONTROL?

L. HOW DOES THE SCHEME MESH WITH OTHER INTERNATIONAL EFFORTS TO STABILIZE EXPORT EARNINGS ON A GLOBAL BASIS (E.G., IMF SCHEME)?

M. DOES THE EC ENVISAGE THAT THE SCHEME WILL HAVE AN EFFECT ON MTN CONSIDERATIONS?

5. POSTS IN EC CAPITOLS SHOULD DISCUSS WITH HOST GOVERNMENTS. FOR POSTS IN ACP CAPITOLS: ANY INFORMATION YOU MAY DEVELOP AS THESE NEGOTIATIONS PROCEED SHOULD BE REPORTED. ABOVE QUESTIONS, HOWEVER, SHOULD NOT BE RAISED WITH HOST GOVERNMENTS NOR SHOULD YOU BE DRAWN INTO ANY DETAILED DISCUSSION ON THE SCHEME'S MERITS. KISSINOER

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